BANGLADESH CAPITAL MARKET REVIEW 2016

LankaBangla SECURITIES

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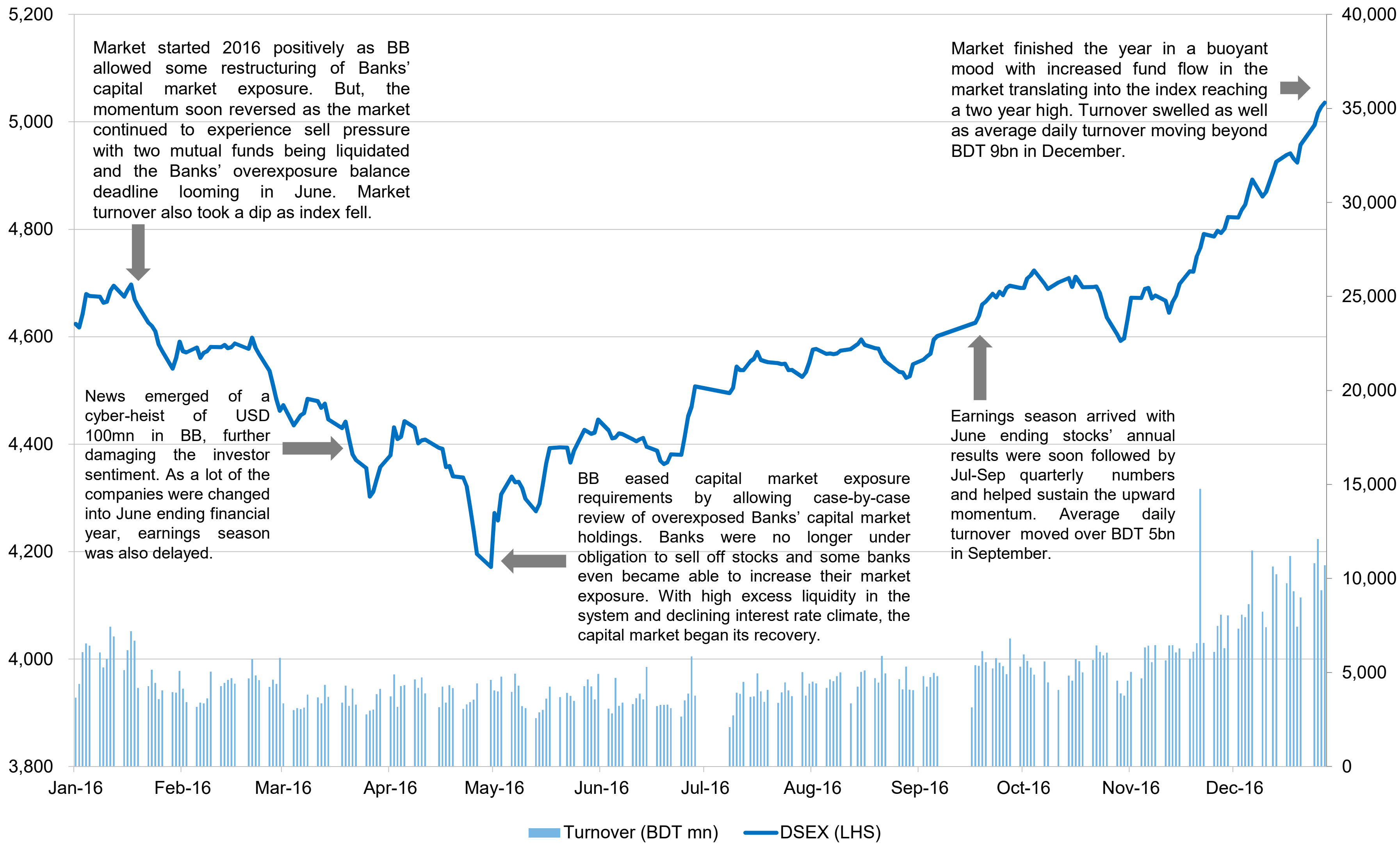
SECONDARY MARKET REVIEW 2016

Benchmark index advanced by 8.78%
Market Cap (BDT) increased by 8.07%
Avg. Daily Turnover stood at BDT 4,994.28 mn (USD 62.79 mn)

DSEX advanced by 8.78%



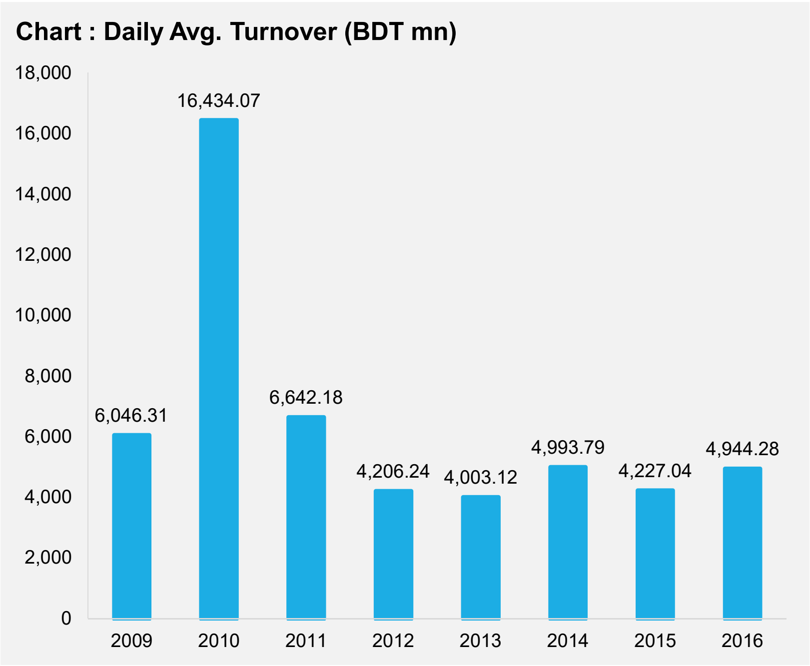
Source: DSE, LBSL Research

Market Fact Sheet

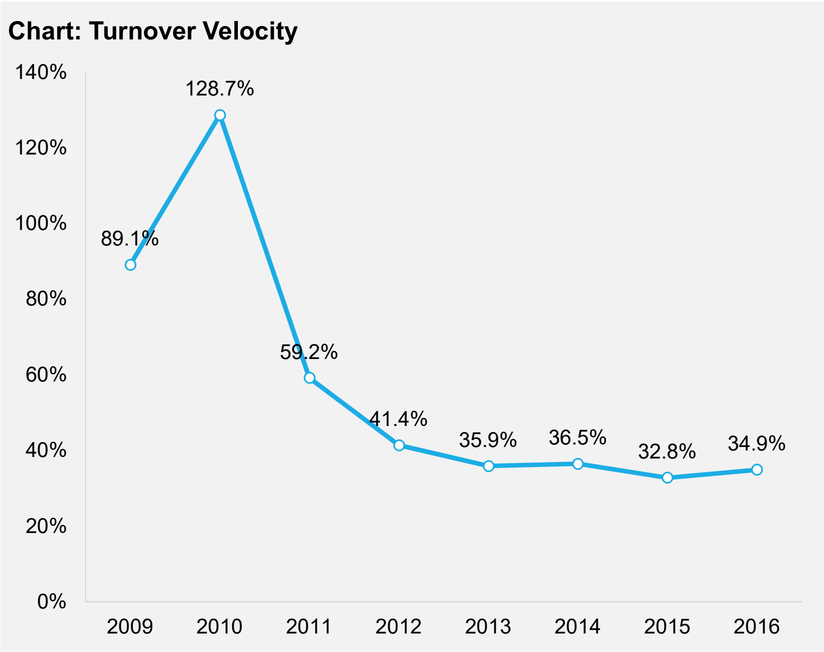
	2010	2011	2012	2013	2014	2015	2016
Trading Days	244	235	238	238	238	244	241
Index							
Closing Index (DSEX)	NA	NA	NA	4,266.60	4,864.96	4,629.64	5,036.05
Highest Value	NA	NA	NA	4,439.60	5,334.04	4,969.73	5,036.05
Lowest Value	NA	NA	NA	3,438.90	4,266.55	3,959.74	4,171.41
Market Information							
Mkt. Cap (USD Mn)	44,125.90	32,914.90	30,233.40	34,055.20	42,327.88	40,215.83	43,470.59
Mkt. Cap to GDP Ratio	50.7%	33.2%	26.3%	25.5%	24.1%	20.6%	19.7%
Daily Avg. Turnover (BDT Mn)	16,434.07	6,642.18	4,206.24	4,003.12	4,993.79	4,227.04	4,994.28
Daily Avg. Turnover (USD Mn)	232.28	81.00	52.91	51.50	62.89	53.80	62.79
% of Change	205.4%	-65.1%	-34.7%	-2.7%	22.1%	-14.4%	17.1%
Turnover Velocity	128.7%	59.2%	41.4%	35.9%	36.5%	32.8%	34.9%
Market P/E	29.16	13.68	12.07	15.07	15.69	14.92	15.38
Securities Listed	445	501	515	529	546	559	560
No. of Listed Companies	236	232	242	256	274	287	294
No. of newly listed companies and Mutual fund(s)	18	14	10	14	17	14	11
Capital raised through IPO (BDT Mn)	11,860.82	19,914.15	11,866.70	8,595.00	9,498.70	9,774.72	9,093.65
Foreign Trade							
Buy (USD Mn)	151.63	153.83	165.56	341.40	587.62	485.65	644.20
Sell (USD Mn)	246.69	143.91	68.24	91.30	248.28	462.09	473.41
Net (USD Mn)	(95.07)	9.91	97.31	250.10	339.34	23.56	170.79
Total (USD Mn)	398.32	297.75	233.79	432.70	835.91	947.75	1,117.62

Source: DSE, LBSL Research

Total turnover increased by 15.5%

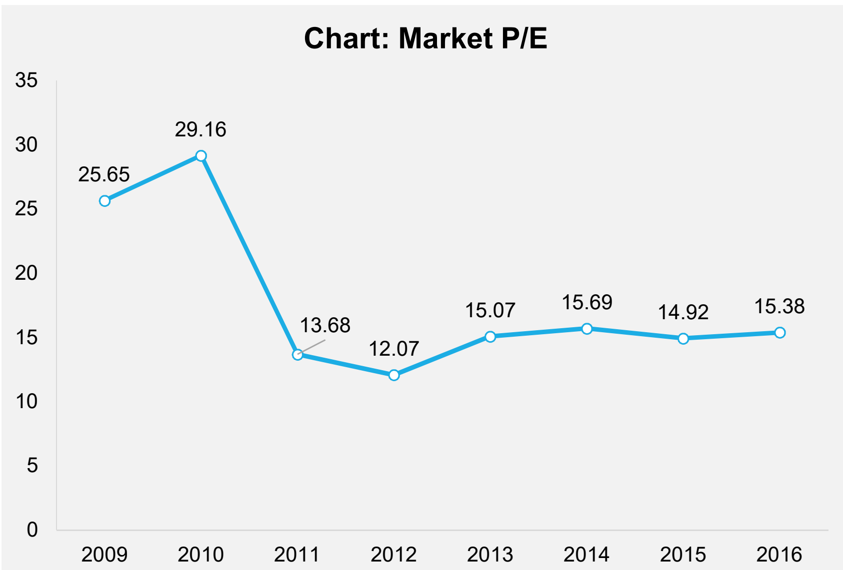


Source: LBSL Research

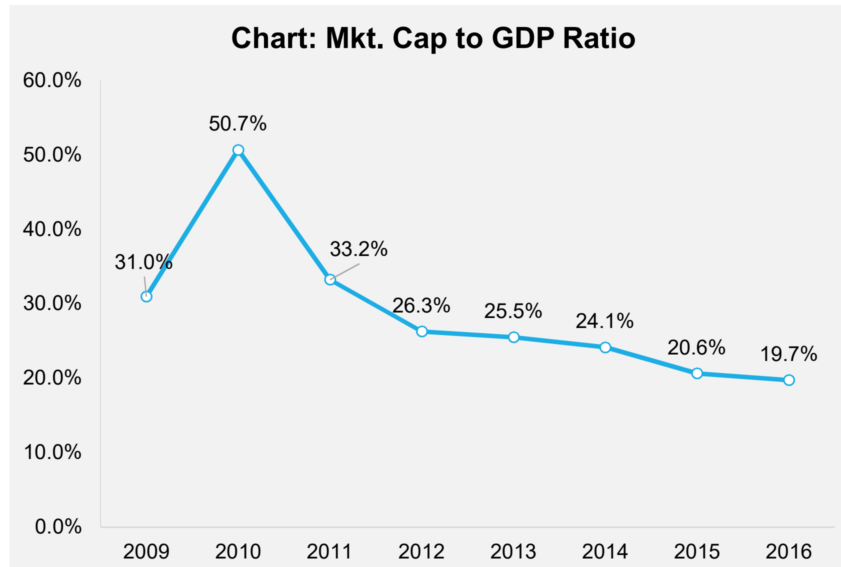


Source: LBSL Research

Market cap increased by 8.1%



Source: LBSL Research



Source: LBSL Research

Sector Performance: Return & Turnover

Table: Sector-wise Price Return

Sector	Market Cap Dec'15 (BDT mn)	Market Cap Dec'16 (BDT mn)	% Change	Sector Contribution in Market Cap (Dec'16)
Bank	410,958.58	483,365.72	17.6%	16.9%
Cement	146,878.28	156,001.61	6.2%	5.5%
Ceramic	26,644.39	25,472.50	-4.4%	0.9%
Engineering	162,558.90	179,652.08	10.5%	6.3%
Food & Allied	243,854.42	234,661.61	-3.8%	8.2%
Fuel & Power	334,043.92	361,779.81	8.3%	12.7%
Gen. Insurance	31,042.41	36,476.65	17.5%	1.3%
IT Sector	9,253.81	11,871.95	28.3%	0.4%
Jute	860.5997	972.6772	13.0%	0.0%
Life Insurance	50,541.94	47,846.09	-5.3%	1.7%
Miscellaneous	81,865.24	99,177.05	21.1%	3.5%
NBFI	150,763.49	167,444.43	11.1%	5.9%
Paper & Printing	1,852.49	1,606.77	-13.3%	0.1%
Pharmaceuticals	440,929.17	435,163.14	-1.3%	15.2%
Service & Real-estate	21,288.07	22,671.71	6.5%	0.8%
Tannery	30,296.54	26,862.18	-11.3%	0.9%
Telecommunication	359,452.19	402,133.88	11.9%	14.1%
Textile	90,078.44	103,454.46	14.8%	3.6%
Travel & Leisure	21,800.66	24,234.08	11.2%	0.8%

Source: LBSL Research

Table: Sector-wise Change in Turnover

Sector	Total Turnover in 2015 (BDT mn)	Total Turnover in 2016 (BDT mn)	% Change	Sector Share in Total Turnover (2016)
Engineering	157,390.47	198,515.62	26.1%	17.6%
Fuel & Power	168,011.81	156,620.61	-6.8%	13.9%
Pharmaceuticals	153,537.57	156,433.71	1.9%	13.8%
Textile	98,764.58	128,004.34	29.6%	11.3%
Bank	72,167.16	94,166.08	30.5%	8.3%
NBFI	39,518.65	71,692.44	81.4%	6.3%
Miscellaneous	46,817.81	65,585.92	40.1%	5.8%
Food & Allied	36,452.39	53,448.46	46.6%	4.7%
Cement	42,446.46	43,941.61	3.5%	3.9%
IT Sector	16,237.78	28,136.36	73.3%	2.5%
Service & Real-estate	35,406.02	25,262.64	-28.6%	2.2%
Telecommunication	35,438.17	19,887.90	-43.9%	1.8%
Travel & Leisure	23,046.44	16,581.29	-28.1%	1.5%
Tannery	8,132.67	14,888.17	83.1%	1.3%
Ceramic	15,111.48	14,466.70	-4.3%	1.3%
Life Insurance	13,162.21	13,358.68	1.5%	1.2%
Gen. Insurance	5,601.64	13,057.78	133.1%	1.2%
Jute	1,322.53	2,831.98	114.1%	0.3%
Paper & Printing	3,840.66	2,370.80	-38.3%	0.2%

Source: LBSL Research

Table: Top Sectors by Price Return

Sector	Market Cap Dec'15 (BDT mn)	Market Cap Dec'16 (BDT mn)	% Change	Sector Contribution in Market Cap (Dec'16)
IT Sector	9,253.81	11,871.95	28.3%	0.4%
Miscellaneous	81,865.24	99,177.05	21.1%	3.5%
Bank	410,958.58	483,365.72	17.6%	16.9%
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Pharmaceuticals	153,537.57	156,433.71	1.9%	13.8%
Textile	98,764.58	128,004.34	29.6%	11.3%
Bank	72,167.16	94,166.08	30.5%	8.3%

Source: LBSL Research

Note: Market cap of newly listed companies in 2015 are included as opening market cap to calculate return.

The Leaders & The Losers

Top Loser	Price Return
BANGAS	-46.6%
TALLUSPIN	-40.7%
ALLTEX	-38.7%
EMERALDOIL	-36.7%
CVOPRL	-36.5%
PLFSL	-35.7%
BDWELDING	-33.5%
MARICO	-33.1%
BDLAMPS	-32.3%
ARAMIT	-31.5%

Source: LBSL Research

The top losers of the year consist almost entirely of small-cap stocks, with MARICO being the only exception. Collectively, the ten largest losing stocks hold only 1.6% of total market cap of Dhaka Stock Exchange (DSE). MARICO alone stands at 0.5% of total market cap and the other nine stocks together make up 1.1%. MARICO saw stagnated revenue and profits in 2016. With the company historically achieving high growth and trading at high multiples consequently, lack in profit growth resulted in downward price movement. The price performance of the rest of the companies suffered as they experienced decline in their earnings or could not meet up the earning expectation of the investors.

Top Performer	Price Return
ZEALBANGLA	586.4%
SHYAMPSUG	306.2%
EASTRNLUB	295.4%
GEMINISEA	240.1%
RAHIMAFOOD	220.6%
FINEFOODS	171.2%
GHAIL	161.8%
RENWICKJA	155.1%
MIRACLEIND	153.7%
CMCKAMAL	127.9%

Source: LBSL Research

Like the top losers, top gainers of the year also consist of small-cap stocks that collectively hold merely 0.6% of total market capital and 2.7% of total trade volume in DSE. 2016 has seen high levels of activity in small-cap stocks, with the market's upward movement in the second half of the year being powered by increased fund flow in small-cap stock often displaying comparatively lower per share prices. Growth in price of some of the companies (such as GHAIL, EASTERNLUB, GEMINISEA) may be attributed to their growth in earnings. However, the rest of the companies have mixed performance in earnings. Overall, majority of the companies are being traded at high P/E ratio.

Company	Total Turnover (BDT mn)
BSRMLTD	24,552.87
SQURPHARMA	24,339.13
LAFSURCEML	22,179.60
MJLBD	21,898.10
UPGDCL	20,056.58
DOREENPWR	18,172.77
BXPHARMA	17,399.91
BBS	17,260.10
SPCL	16,151.64
LANKABAFIN	15,505.16

Source: LBSL Research

The top five turnover leaders are large-cap companies, collectively holding 11.6% of total market cap. Beyond the top five, the top turnover list is mostly populated by mid to small cap stocks. In 2016, top ten highly traded stocks accounted for 17.5% of the total market turnover compared to 24.5% in 2015 which indicates that turnover was more spread out compared to last year. Looking at the price return of the top turnover generating companies, diverse patterns could be found. Stocks like BSRMLTD, MJLBD, DOREENPWR gave price returns in line with strong earning growths. The year also saw high amounts of event driven turnover, LAFSURCEML and DOREENPWR for example. On the other end of the spectrum, SQURPHARMA's strong earnings growth did not translate into similar degree of price reutrn.

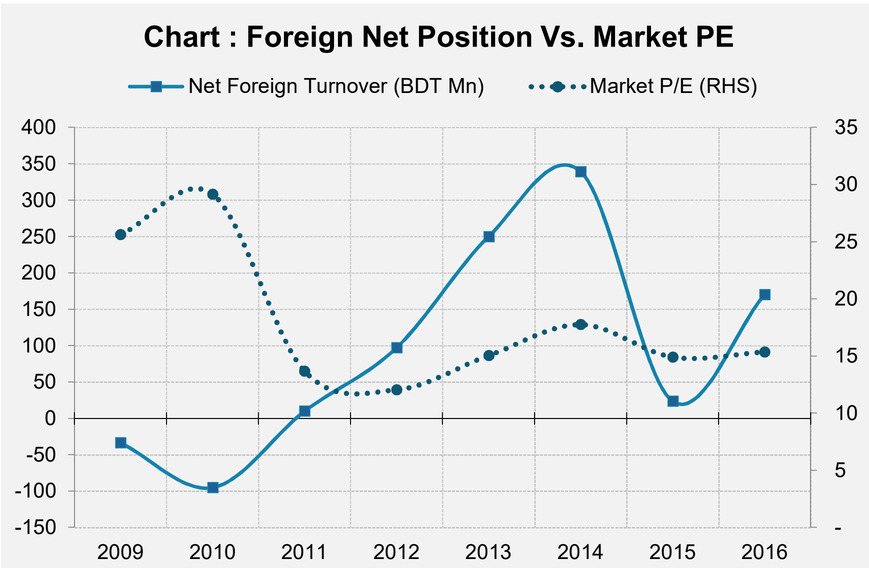
FOREIGN TURNOVER IN 2016

Foreign turnover increased by 17.6%

Net investment for the year stood at USD 170.3 mn

Foreign Investment focused in Pharmaceuticals, Food & Allied and Bank sectors

Foreign turnover increased by 17.6%



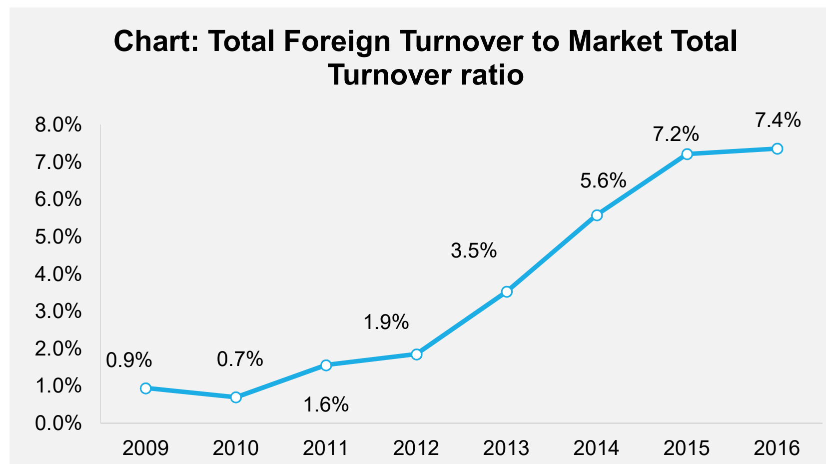
Source: DSE, LBSL Research

- The year 2016 brought to Bangladesh the highest amount of foreign trade in history. Total foreign turnover stood at USD 1,114.21 mn in 2016 registering 17.6% growth YoY. The increased turnover came mostly from increased foreign buys, with total buy in foreign holdings increasing by 32.1% YoY compared to a 2.1% increased in total sell.
- Total buy and sell by the foreign investors hit the all time highs in 2016. But investors were mostly in buying mood as a lot of large cap stocks became attractive due to low valuation levels and good earnings growth.
- Between 2015 and 2016, net foreign investment saw a massive 721.5% increase, from USD 23.6 mn to USD 170.3 mn. The large increase is largely due to very small net investment in 2015, which was the lowest in four years. Overall, net investment is still relatively lower compared to 2013 and 2014.
- Turnover from foreign sources amounted to 7.4% of the total market turnover in 2016, staying close to the 2015 figure, 7.2%. Foreign turnover contribution has been showing a rising trend over since 2010, indicating increasing participation of foreign investors in market. However, with strong increase in foreign turnover volume and net investment rebounding from slump in the previous year, 2016 saw significant foreign presence in Bangladeshi capital market.

Table : Foreign Trade Performance 2016

Particulars	2010	2011	2012	2013	2014	2015	2016
Buy(USD mn)	151.6	153.8	165.6	341.4	587.6	485.7	642.2
Sell(USD mn)	246.7	143.9	68.2	91.3	248.3	462.1	472.0
Total(USD mn)	398.3	297.7	233.8	432.7	835.9	947.8	1114.2
Net(USD mn)	-95.1	9.9	97.3	250.1	339.3	23.6	170.3
Market PE-RHS	29.2	13.7	12.1	15.1	17.8	14.9	15.4

Source: DSE, LBSL Research



Source: DSE, LBSL Research

Foreign investments focused in large-cap stocks from Pharma, Food & Allied, Bank sectors

- Total foreign exposure in Bangladesh equity market stands at **BDT 163,363.93 mn**, accounting for 6.0% of the market capitalization.
- In terms of sector exposure, the largest amount of foreign investment are seen in stocks from the Pharmaceuticals and Chemicals sector with BDT 55,112.60 mn worth of foreign holding. More than one-third of total foreign exposure can be seen in this sector. SQURPHARMA, RENATA and BXPHARMA occupy three of the top six spots in terms of stocks with largest foreign investment, indicating foreign interest in established pharma manufacturers. Food & Allied and Banks are the two next largest sectors attracting foreign investment.
- Adjusting for size, the most lucrative sector for foreign investment in Bangladesh capital market seems to be the Food & Allied sector. Foreign investors hold 19.7% of the sector's total market cap and 48.0% of the sector's free float. High foreign ownership in OLYMPIC and BATBC mostly accounts for the large investments. BRACBANK has the largest foreign ownership of free float shares, with 74.7% of the free float being owned by foreign investors. BRACBANK also accounts for more than 70% of foreign holdings in the Bank sector.
- Looking at most preferred stocks for foreign investment, we see mostly large-cap stocks. An abundance of manufacturing stocks can also be observed.

Table : Foreign Holdings in Different Sectors

Sector	Market Capitalization of Foreign Holdings (BDT mn)	Total Market Capitalization (BDT mn)	Foreign ownership	Foreign ownership in Free Float
Pharmaceuticals & Chemicals	55,112.50	437,869.38	12.6%	23.1%
Food & Allied	45,591.70	231,720.13	19.7%	48.0%
Bank	27,205.21	461,694.18	5.9%	10.7%
Telecommunication	8,907.70	402,084.40	2.2%	20.6%
Engineering	8,039.14	164,645.39	4.9%	10.1%
Financial Institutions	5,788.68	150,866.73	3.8%	13.3%
Fuel & Power	3,938.34	366,036.34	1.1%	3.5%
Miscellaneous	2,824.93	98,012.85	2.9%	10.0%
Textile	2,092.04	92,304.25	2.3%	4.1%
Cement	1,894.14	148,619.34	1.3%	3.5%
Tannery Industries	900.74	27,560.52	3.3%	6.9%
Insurance	446.71	81,681.26	0.5%	1.0%
Travel & Leisure	228.39	19,181.89	1.2%	1.9%
Ceramics	203.74	25,310.71	0.8%	2.7%
Jute	116.42	989.21	11.8%	22.6%
IT Sector	54.86	11,344.26	0.5%	0.8%
Services & Real Estate	18.67	20,421.65	0.1%	0.2%
Paper & Printing	-	1,568.40	0.0%	0.0%

Source: DSE, LBSL Research

Table :Stocks with largest foreign investment

	Stock	Market Capitalization of Foreign Holdings (BDT mn)	Foreign ownership	Foreign ownership in Free Float
1.	SQURPHARMA	26,525.30	15.8%	24.8%
2.	OLYMPIC	23,374.82	39.6%	55.6%
3.	BATBC	22,056.23	14.5%	54.7%
4.	BRACBANK	19,226.21	41.4%	74.7%
5.	RENATA	14,472.88	21.8%	44.6%
6.	BXPHARMA	12,999.54	38.9%	44.8%
7.	GP	8,571.92	2.2%	22.4%
8.	BSRMLTD	7,765.47	29.3%	49.6%
9.	DBH	4,390.88	35.2%	72.3%
10.	ISLAMIBANK	3,086.35	6.4%	21.1%
11.	BEXIMCO	1,910.34	9.9%	12.3%
12.	CITYBANK	1,337.78	6.1%	8.8%
13.	SUMITPOWER	1,379.80	3.7%	8.4%
14.	LAFSURCEML	1,286.57	1.5%	4.1%
15.	IDLC	694.08	4.7%	11.6%
16.	MJLBD	985.47	2.7%	9.6%
17.	SOUTHEASTB	921.50	5.7%	8.4%
18.	BATASHOE	887.00	5.5%	18.4%
19.	TITASGAS	802.10	1.7%	7.0%
20.	SQUARETEXT	823.60	6.7%	17.8%

Source: DSE, LBSL Research

Note: All figures based on shareholding pattern and market capitalization data as on November 30, 2016

Primary Market Performance 2016

11 new securities got listed with offer size of BDT 9093.65 mn

98% of the fund raised through IPO was used for expansion and other activities

Newly listed companies performed poorly in the market after opening high

11 new securities got listed with offer size of BDT 9093.65 mn

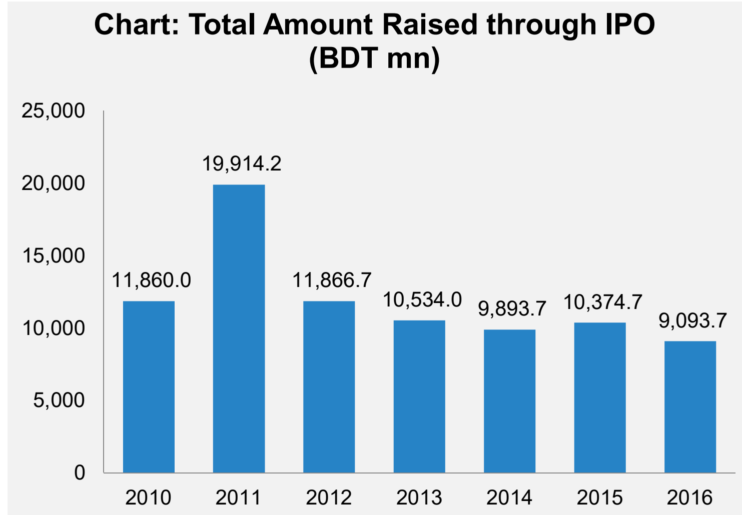
Table: Companies listed in 2016

Company	Sector	Public Offer Size (BDT mn)
The ACME Laboratories Limited (ACMELAB)	Pharmaceuticals & Chemicals	4,096.00
Vanguard AML BD Finance Mutual Fund One (VAMLBDMF1)	Mutual Funds	1,043.20
SEML Lecture Equity Management Fund (SEMLLECMF)	Mutual Funds	500.00
Vanguard AML Rupali Bank Balanced Fund (VAMLRBBF)	Mutual Funds	1,587.45
Bangladesh National Insurance Company Limited (BNICL)	Insurance	177.00
Information Technology Consultants Limited (ITC)	IT	120.00
Doreen Power Generations and Systems Limited (DOREENPWR)	Fuel & Power	580.00
Fortune Shoes Limited (FORTUNE)	Tannery Industries	220.00
Yeakin Polymer Limited (YPL)	Engineering	200.00
Evince Textiles Limited (ETL)	Textile	170.00
Dragon Sweater & Spinning Limited (DSSL)	Textile	400.00
Total money raised from IPO		**9,093.65**

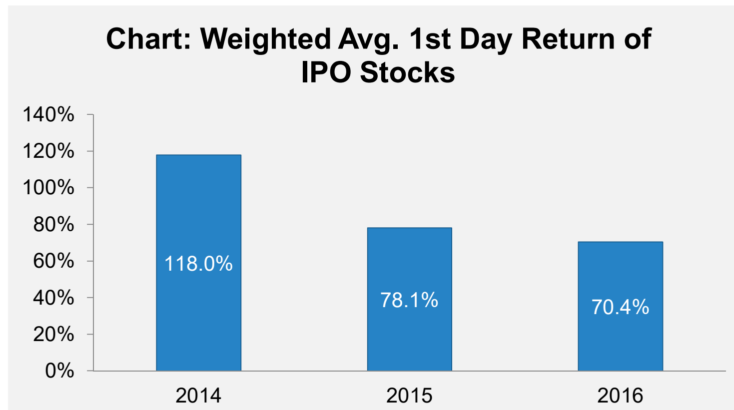
Source: DSE, LBSL Research

2016 saw a lower amount of equity being raised through IPOs compared to 2015, as new book building rules came into effect. As part of the regulations, companies seeking to issue shares with a premium has to go through a book-building process, which takes longer than the fixed price method.

IPO shares gave lower returns in 2016 compared to those of 2015 and 2014. The weighted average return (calculated from the offer price of IPO and the first trading day's closing price) in 2016 was 70.4% which was 78.1% in 2014 and 118.0% in 2014.



Source: DSE, LBSL Research



Source: DSE, LBSL Research

Note: Weights have been assigned based on public offer size

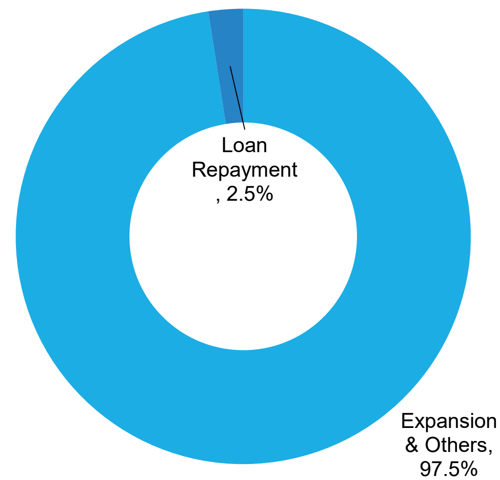
98% of the fund raised spent on expansion & other activities

Table: IPO Proceeds Usage 2016 (BDT mn)

Sector	Loan Repayment	Expansion & Others	Total
Engineering		200.00	200.00
Fuel & Power	190.00	390.00	580.00
Insurance		177.00	177.00
IT	40.00	80.00	120.00
Mutual Funds		3,130.65	3,130.65
Pharmaceuticals & Chemicals		4,312.80	4,312.80
Tannery Industries		220.00	220.00
Textile		570.00	570.00
Total	**230.00**	**9,080.45**	**9,310.45**

Source: DSE, LBSL Research

Chart: Usage of IPO Funds

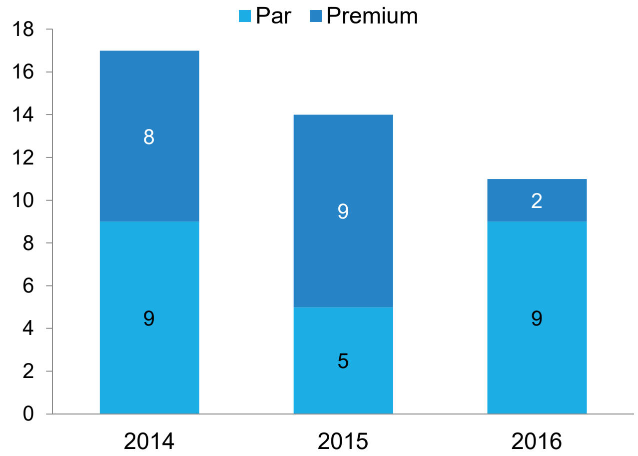


Source: DSE, LBSL Research

- From the total amount of BDT 9093.65 mn that was raised by 11 companies in 2016, BDT 230.00 mn was to be used for repayment of debt and BDT 9080.45 mn was scheduled to be used for expansion and other activities. In reality, BDT 8863.65 mn of the IPO money could actually be used be used for expansion and other purposes. This slight mismatch between the two amounts is due to ACMELAB's IPO under book building method, where not all the required money required for expansion could be raised.
- The percentage of total raised funds planned to be used for debt repayment was 2.5%. compared to 19.1% in 2015.
- In 2016, Pharmaceuticals & Chemicals sector was the top sector (solely for ACMELAB) to raise money through IPO, followed by Mutual Funds, and Fuel & Power sector.
- In 2016, Pharmaceuticals & Chemicals sector proposed to raise BDT 4312.80 mn from the primary market but actually raised BDT 4,096.00 mn, whereas Mutual Funds and Fuel & Power sector had raised BDT 3130.65 mn and BDT 580.00 mn respectively.
- Vanguard AML BD Finance Mutual Fund One, Vanguard AML Rupali Bank Balanced Fund, SEML Lecture Equity Management Fund cumulatively raised BDT 3130.65 mn to become the second largest sector to raise fund through IPO in 2016.

Newly listed companies performed poorly after opening high

Chart: Par vs. Premium Issue



Source: DSE & LBSL Research

Table: Price return of IPO 2016

Company	1st day return	Return till year end
The ACME Laboratories Limited (ACMELAB)	53.1%	-16.0%
Vanguard AML BD Finance Mutual Fund One (VAMLBDMF1)	30.0%	-29.2%
SEML Lecture Equity Management Fund (SEMLLECMF)	36.0%	-26.5%
Vanguard AML Rupali Bank Balanced Fund (VAMLRBBF)	-5.0%	-6.3%
Bangladesh National Insurance Company Limited (BNICL)	83.0%	2.2%
Information Technology Consultants Limited (ITC)	377.0%	-0.8%
Doreen Power Generations and Systems Limited (DOREENPWR)	188.6%	22.2%
Fortune Shoes Limited (FORTUNE)	501.0%	-15.5%
Yeakin Polymer Limited (YPL)	218.0%	-4.4%
Evince Textiles Limited (ETL)	135.0%	-19.6%
Dragon Sweater & Spinning Limited (DSSL)	88.0%	-4.3%

Note: Return till year end has been calculated based on the closing price of the first trading day

Source: DSE & LBSL Research

In 2016, a total of 11 companies came to the market. Among them, 2 companies offered premium to their par value and the remaining 9 companies offered par value to get listed in the secondary market. On the other hand, in 2015, 14 companies got listed among which 9 companies offered premium to their par value and 5 companies offered par value for getting listed in the secondary market.

Price Return

Other than one mutual fund, all of the IPOs gave positive return on the first day of trading. Compared to the offer price, the weighted average 1st day return was 70.4%. The market has heightened interests on a new stock. But by the end of the year, the companies find it hard to sustain this momentum. From the first day of trading, the weighted average return is -12.4%, with only one stock managing to give positive price return from the first day till the year end.

Valuation

The weighted average P/E multiple (considering the offer price and latest audited earnings per share at the time of IPO offering) of 8 (excluding three mutual funds) companies was 16.05 x in 2016. On the other hand, the weighted average P/BV multiple of 8 companies was 1.29x in 2016.

PEER MARKET REVIEW 2016

Regional peer indexes gave mixed returns in 2016

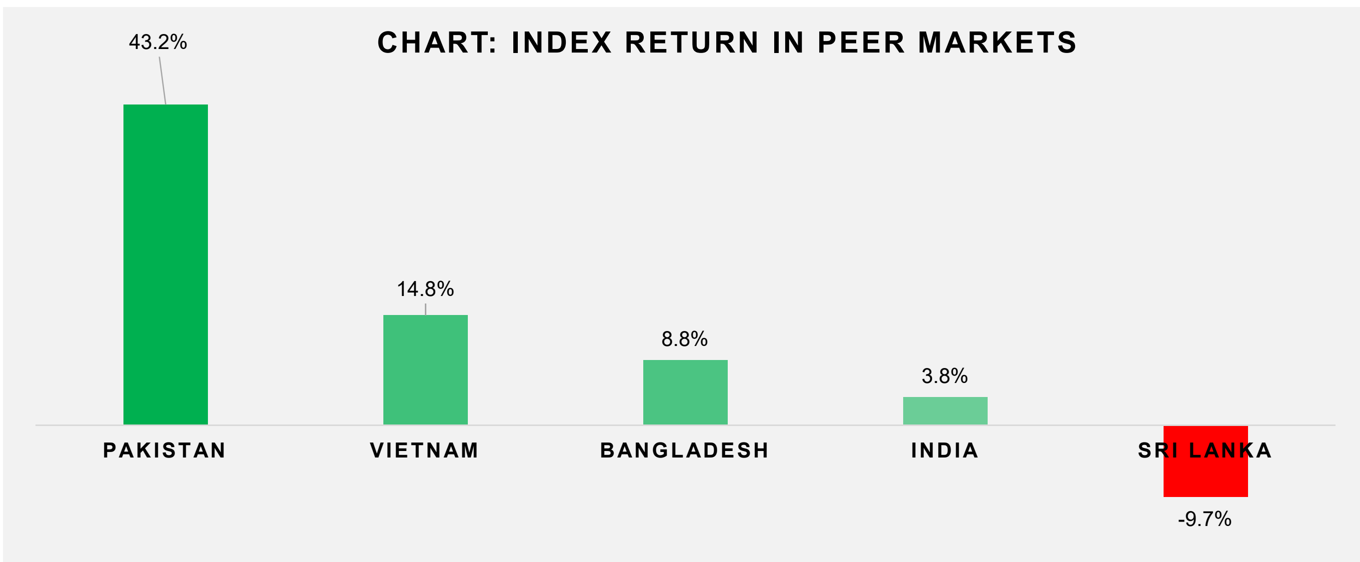
Bangladesh capital market gave middle-of-the-park returns with valuations at the peers' average level

Regional peer indexes gave mixed returns in 2016

Table: Peer Market Performance

		Dec'15				Dec'16				
Particulars	**Country**	**Index**	**P/E**	**P/B**	**D/Y**	**Index**	**P/E**	**P/B**	**D/Y**	**Index return in 2016**
S&P BSE 500 Index	India	10,634.22	22.97	2.48	1.3%	11,036.44	23.12	2.39	1.4%	3.8%
KSE All Share Index	Pakistan	22,936.80	11.27	1.88	4.9%	32,842.43	15.71	2.41	3.6%	43.2%
Ho Chi Minh Stock Index	Vietnam	579.03	11.31	1.75	4.0%	664.87	15.91	1.97	3.0%	14.8%
CSE All Share Index	Sri Lanka	6,894.50	15.37	1.63	2.5%	6,228.26	11.80	1.35	3.0%	-9.7%
DSEX Index	Bangladesh	4,629.64	14.92	2.08	3.2%	5,036.05	15.38	2.00	3.0%	8.8%

Source: Bloomberg, LBSL Research



Source: Bloomberg, LBSL Research

LankaBangla SECURITIES

PERFORMANCE OF CLOSED END MUTUAL FUNDS 2016

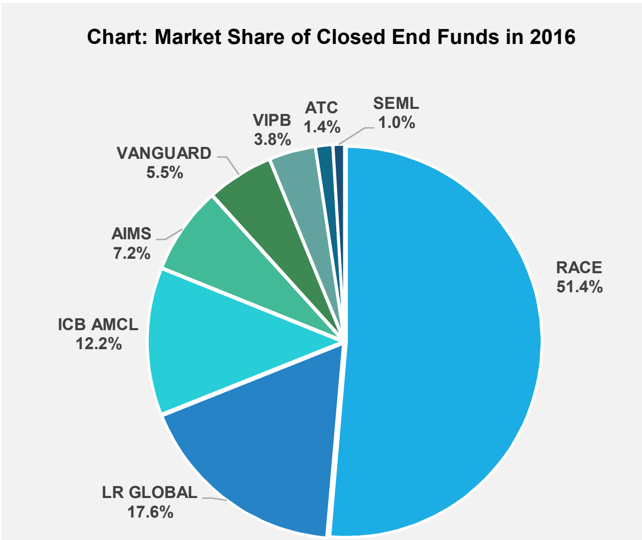
Closed end funds (CEFs) under-performed the benchmark index by 0.7% in 2016
CEFs traded at 33% discount; only 3 funds traded at premium
Total cash dividend distributed by CEFs in 2016 stood at BDT 1741.71 mn, 4.3% lower than that in 2015

Closed End Funds' (CEFs) NAV increased by 8.1%

Table : Overall Performance of the CEFs

Particulars	Dec-15	Dec-16	Change
NAV of CEFs (BDT mn)	51,049.84	55,162.47	8.1%
DSEX (Broad Market)	4,629.00	5,036.05	8.8%
Price to NAV of all CEFs	0.56	0.67	19.2%

Source: DSE, LBSL Research



Source: DSE, LBSL Research

Table: Fund Managers' Performance

AMC	Portfolio Return	Over/ (Under) performance
VIPB	19.5%	10.1%
AIMS	16.1%	6.6%
ATC	15.4%	6.0%
ICB AMCL	11.9%	2.5%
RACE	6.9%	-2.5%
VANGUARD	5.1%	-4.3%
LR GLOBAL	3.9%	-5.5%
SEML	3.7%	-5.7%

Source: DSE, LBSL Research

Performance of Fund Managers in 2016

- Closed end funds registered a portfolio gain of 8.1% in 2016 whereas broad market gave return of 8.8%. The industry under-performed the benchmark return this year.
- Among the fund managers, VIPB was the top performer in terms of portfolio return as NAV of funds managed by VIPB increased by 19.5%. The second performer was AIMS, achieving portfolio return of 16.1%, followed by ATC 15.4%, ICB AMCL 11.9%, RACE 6.9%, VANGUARD 5.1%, LR GLOBAL 3.9% and SEML 3.7%.
- Among the asset managers, top asset manager in terms of Assets Under Management (AUM) is RACE, having 51.4% market share in the industry, followed by LR GLOBAL, ICB AMCL, AIMS, VANGUARD, VIPB, ATC and SEML.
- VIPB, AIMS, ATC and ICB AMCL had beaten the market by 10.1%, 6.6%, 6.0%, and 2.5% respectively. Whereas, RACE, VANGUARD, LR GLOBAL, and SEML under-performed by 2.5%, 4.3%, 5.5%, and 5.7%.
- All funds of ICB and one fund of ICB AMCL was liquidated this year.

Note:

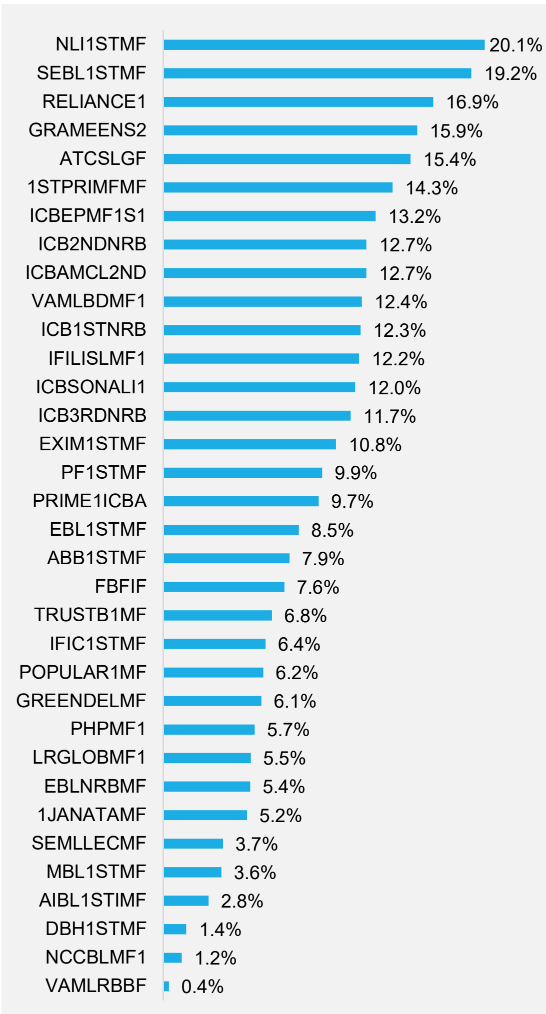
***To calculate the portfolio return of funds (and asset managers), the year end net asset value of funds are adjusted for cash dividend .**

*** Beginning NAV of VANGUARD has been considered in industry NAV of 2015 to calculate the industry return.**

*** The funds which have been liquidated during 2016 have been deducted from total NAV of CEFs in 2015 as well.**

Total cash dividend distributed is BDT 1741.71 mn

Chart : Portfolio Return of Mutual Funds in 2016



Source: DSE, LBSL Research

Table: Total Cash Dividends Paid by AMCs 2016

AMC	Dividend in 2016 (BDT mn)
LR GLOBAL	591.07
ICB AMCL	540.00
AIMS	239.40
VIPB	200.19
ATC	80.32
VANGUARD	78.24
SEML	12.50
RACE	-
Total	**1,741.71**

Source: DSE, LBSL Research

Table : Cash Dividends Declared by Mutual Funds in 2016

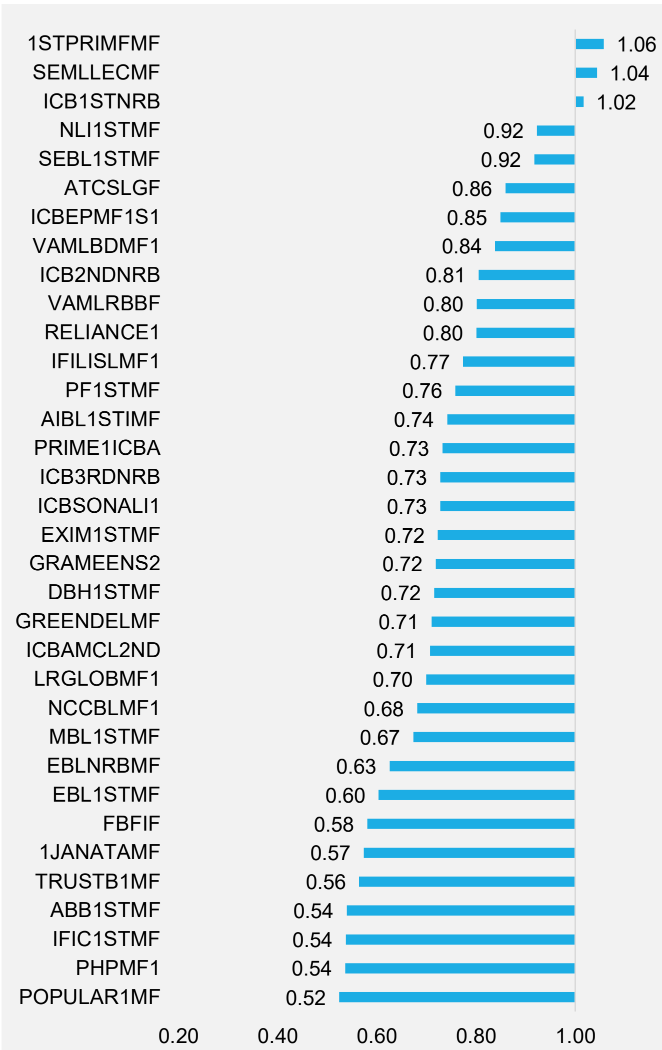
Fund name	Cash Dividend Per Share (BDT)	Dividend Yield
ICB1STNRB	3.50	16.8%
AIBL1STIMF	1.30	16.0%
IFILISLMF1	1.00	13.7%
MBL1STMF	1.00	13.7%
ATCSLGF	1.30	12.3%
PRIME1ICBA	0.70	11.7%
ICB2NDNRB	1.00	11.5%
ICBSONALI1	0.75	11.4%
NLI1STMF	1.40	10.7%
SEBL1STMF	1.30	10.7%
RELIANCE1	1.00	10.0%
NCCBLMF1	0.65	8.9%
ICBEPMF1S1	0.60	8.8%
ICB3RDNRB	0.50	8.8%
PF1STMF	0.50	8.2%
GRAMEENS2	1.00	8.1%
ICBAMCL2ND	0.50	7.9%
VAMLBDMF1	0.75	7.8%
LRGLOBMF1	0.50	6.9%
DBH1STMF	0.50	6.7%
GREENDELMF	0.50	6.7%
1STPRIMFMF	0.50	4.2%
SEMLLECMF	0.25	2.4%

1JANATAMF, ABB1STMF, EBL1STMF, EBLNRBMF, EXIM1STMF, FBFIF, IFIC1STMF, PHPMF1, POPULAR1MF, TRUSTB1MF, VAMLRBBF did not announce any cash dividend during 2016

Source: DSE, LBSL Research

Closed End Funds traded at 33% discount

Chart : Price to NAV Ratio of Closed End Mutual Funds



Source: DSE, LBSL Research

Table : Analysis of Top Five Discounted Mutual Funds

Top 5 Discounted	Price/Nav Dec'16	Portfolio Return	Asset Manager
POPULAR1MF	0.52	6.2%	RACE
PHPMF1	0.54	5.7%	RACE
IFIC1STMF	0.54	6.4%	RACE
ABB1STMF	0.54	7.9%	RACE
TRUSTB1MF	0.56	6.8%	RACE

Source: DSE, LBSL Research

- Among the 34 closed end funds, only three funds were trading at a premium and all other funds were trading at discount. The industry's current price to NAV ratio stands at 0.67 which means the closed end funds of Bangladesh is being traded at 33% discount to its NAV. So, the industry exhibits undervaluation relative to its asset value which is attractive for the value investors. The top five most discounted funds in this industry are trading on an average 46% discount to their NAV.
- The top five discounted funds relative to their NAV had under-performed the benchmark index in terms of return. Of the top five most discounted funds, ABB1STMF exhibited the highest portfolio return (7.9%) with a price to NAV ratio of 0.54.
- Among the AMCs, RACE's Price to NAV is poor due to not announcing any cash dividend. In most cases, funds which have historically announced higher cash dividends display better Price to NAV ratio.

Regulatory Changes 2016

Regulatory Changes

All companies except Bank, Insurance, Financial Institutions and MNCs to follow uniform income year from July to June

BSEC has made it obligatory for all the tax payer companies excluding, and Bank, Insurance & Financial Institutions (FIs) that they have to follow the uniform income year from July to June, effective from July 01, 2016. The listed companies following different financial year system will have the flexibility to close their financial statements earlier or later than the existing closing date which may be extended up to 18 (eighteen) months with the approval of the Board as well as the shareholders. However, multi-national companies (MNCs) have been exempted from having to follow this rule. They are allowed to operate with existing financial year to help them maintain consistency with the global entity.

Bank, Insurance and Financial Institutions to follow uniform income year from January to December

BSEC has made it obligatory for the entire tax payer Bank, Insurance & Financial Institutions or any subsidiary that they have to follow the uniform income year from January to December, effective from January 01, 2017. The listed institutions following different financial year system will have the flexibility to close their financial statements earlier or later than the existing closing date which may be extended up to 18 (eighteen) months with the approval of the Board of Directors as well as the shareholders.

Price Sensitive Information to be disclosed immediately

The securities regulatory commission of Bangladesh has determined the way of disclosing the price sensitive information (PSI) for all the listed companies. Companies must notify the BSEC and the relevant stocks exchanges immediately or within thirty minutes of taking/ noticing the price sensitive information (PSI). The information must also be published immediately in two widely circulated national dailies along with one online newspaper. The concerned stocks exchange(s) will broadcast the news through news monitor as soon as they receive the news.

BSEC announces new rules regarding board meeting and quarterly disclosures

- Board meeting regarding price sensitive decision has to be held after the trading hour or on a holiday
- Quarterly reports (audited or unaudited) for the listed companies except life insurance companies will have to be submitted within 45 days of end of the first quarter (Q1) and one month of end of the second quarter (Q2) and third quarter (Q3); while for the life insurance companies it's 90 (ninety) days of end of Q1 and one month of end of Q2 and Q3 of the financial year. The reports have to be submitted to BSEC & the stock exchanges as well as have to be published the same in at least two widely circulated national dailies, one in Bangla and the other in English. A detailed version of the reports will also have to be made available in the respective companies' websites
- Current period's net asset value (NAV) per share, earnings per share (EPS) and net operating cash flows per share (NOCFPS) will have to be disclosed in respect of the preceding comparable period
- The issuer of a listed security shall provide reasons in case of any significant deviation between the quarterly financial statements

BSEC's new directives on payment of money after dissolution of mutual fund scheme

The Securities Exchange Commission of Bangladesh has directed that the distributable money for unit owners after the dissolution of mutual fund scheme will be returned through Electronic Fund Transfer Network (EFTN); crossed cheque/ bank draft/ pay-order can be used only if EFTN money transfer isn't possible for any logical reason. But in case of BO accounts, the cumulative money for the margin recipients will be returned to the concerned DP through EFTN, which the DP then will have to redistribute among the unit owners within the next 3 days. A report regarding the distribution money will have to be then submitted to the trustee within two days. All these time specifications will be in alignment with the sec. 54(2) of the Securities & Exchange Commission Act, 2001.

BSEC approves new platform for small-cap firms to raise funds

Bangladesh Securities and Exchange Commission in August has approved 'Qualified Investor Offer by Small Capital Companies Rules, 2016,' to facilitate the growth of small-cap companies that have potential but do not have enough funds. Small-cap companies- companies with a minimum paid-up capital of Tk. 5 crore, will get a separate trading platform to raise funds only from 'qualified investors' of the capital market. Qualified investors mean institutional investors and high net-worth individuals who will get separate beneficiary owner's accounts created by the Central Depository Bangladesh Ltd. These small-cap companies cannot use the initial public offering method to raise funds and if the paid-up capital exceeds Tk. 30 crore after listing on the separate platform, it can apply for listing on the main board of exchanges. The shares of small-cap companies will have to be in electronic or dematerialized form. There will also be a one year lock-in period for the shares held by qualified investors. However, trading, clearing, settlement and trading cycles will be like the main market of the bourses.

Guideline on financial derivatives announced

The Bangladesh Securities and Exchange Commission has declared a general guideline on trading of derivative products in the capital market. In the guideline, a general description of the scope, types, design and contract specifications of financial derivatives have been given to be later specified by the concerned exchange. The exchange should also provide a fully automated screen-based trading on a nationwide basis which should support an order driven market to operate transparently on strict price-time priority basis. In the meanwhile, participants in the derivates exchange can be structured in different categories to enable wider participation but will have to get separate registration. The guideline also mentions of a Central Counterparty (CCP) clearing and settlement company to establish required mechanisms and of an automated electronic system for clearing and settlement of derivative contracts. For the risk management segment, the guideline presents tools like Client level margining, Mark to Market Settlement, Prescribing of the Liquid Net Worth by the commission etc. The client broker relationship, investor education, approval and issuance procedures for the derivative segment are in alignment with the current stock market standards and don't bring much new requirements. The guideline for the preconditions, however, states requirements like CCP, Settlement guarantee fund, Investor protection fund before launching the derivative market by the concerned exchange(s).

Regulatory Changes

Bangladesh Bank eased rules for banks' capital market exposure

Banks have been allowed to get their overexposures adjusted through restructuring the exposure components as subsidiary capital. The development will enable banks to make fresh investments in stocks, although the stockmarket exposure ceiling remains unchanged at 25 percent of their capital. Bangladesh Bank worked with overexposed banks 'case to case' basis to bring down such exposure within stipulated timeframe without selling any shares.

NBFIs given restructuring options to adjust excess capital market exposure

The country's non-bank financial institutions will be allowed to convert their excess capital market exposure to subsidiaries into equity. The move from the central bank aims to bring down FIs' stock market exposure within a limit of 25% of their equity. Banks had been previously given this facility to bring the capital market exposure within limits without having to sell off stocks.

Stock Exchange to submit recommendation on public issue within 90 days

The regulatory body of securities exchange in Bangladesh has provided with certain further requirements regarding public issue that a stock exchange shall submit its final recommendation to the Commission on any public issue within 90 (ninety) days of receiving the application, effective immediately.

Regulator repeals provisions regarding direct listing

The regulatory body of securities exchange in Bangladesh (BSEC) has revoked the provisions regarding the direct listing of unlisted or re-listing of de-listed securities of a company which is not owned by the Government.

Brokers and merchant banks given one more year to keep provision against unrealized losses

The Securities Exchange Commission of Bangladesh has eased provision requirement against unrealized loss during the year ended at 31 December, 2016 (or applicable financial year) for stock brokers and merchant banks; provided that they can't give any cash dividend for that year. The relaxed guideline states that both stock dealers and merchant banks can avail optional facility of maintaining the provision against unrealized loss in 5 quarterly equal portions of 20% from December 2016- December 2017 (or applicable financial year) for their own account/ portfolio and for bought shares in favour of their clients through distributed margin loans.

Guidelines on commercial paper investment for banks

Bangladesh Bank has issued a set of guidelines on commercial paper for banks, a new investment tool in the money market. Before investment in any CP, banks should assess the issuer's overall debt repayment capacity by taking into consideration the issuer's liabilities with other banks and financial institutions to make sure that the issuer has the ability to repay, the guideline read. As per the guideline, the current ratio of the issuer must be at least 1:1 as per the latest audited balance sheet. The debt-equity ratio of the issuer must be maximum 70:30 while banks investment in a single issue of CP shall not exceed 20% of the respective issue.

NBFIs allowed to issue commercial paper to collect fund

Bangladesh Bank set guidelines on the issuance of commercial paper by non-bank financial institutions so that they (NBFIs) can collect fund from banks, corporate groups and other NBFIs through issuing the instrument. The total investment in commercial paper by any NBFI will not exceed 30 per cent of its total capital, but no NBFI will invest more than 10 per cent of its total capital in a single company's commercial paper. The equity of the company, in which FIs intend to invest, will not be less than Tk 30 crore.

Banks asked to limit single borrower exposure

Bangladesh Bank has asked all scheduled banks to bring down their overexposure to a single borrower limit, which is 25% of the bank's capital, by December 31, 2016. The instruction came in the wake of misinterpretation of the rule of single borrower exposure limit by banks providing loan facilities beyond the ceiling, said the circular. According to the Bank Company Act, the loan borrowed by any individual, organization or group will not exceed a certain limit of the capital set by the central bank.

20% quota in IPOs for affected small investors extended for one year

The stock market regulator's proposal for extending the tenure by one more year to continue 20% quota in all IPOs for the affected small stock investors has been approved. The extension of 20% quota in the Initial Public Offerings (IPOs) was made following the request of Bangladesh Securities and Exchange Commission (BSEC).Earlier, the stock market regulator placed a proposal to the Finance Ministry for the extension of the tenure of IPO quota by one more year to June 30, 2017, considering the market situation. It was said that this was the last such extension.

BB allows non-listed companies to get capital from banks, NBFIs

The central bank has issued policies allowing non-listed companies to get capital from the banks and non-banking financial institutions (NBFIs) indirectly. Country's non-banking financial institutions (NBFIs) can now invest maximum 50 per cent of their paid-up capital in funds like Special Purpose Vehicle (SPV) and Alternative Investment Fund (AIF). Bangladesh Bank (BB) has already issued a circular in this regard and asked the managing directors and the chief executives of all NBFIs to follow the latest instruction for investment in such funds.

ECONOMIC, CAPITAL MARKET AND SECTOR OUTLOOK 2016

Economic Outlook

- Bangladesh has one of the fastest growing economies in the world. During the past decade (from FY06 to FY16) the nominal GDP of the country grew at a 13.6% CAGR. Economic growth achieved during FY16 broke all previous records and beat the target, increasing by 7.11% in real terms. The government has set the FY17 GDP growth target at 7.20%, which is ambitious but achievable. Considering the current calm political environment and recent development activities by the government in the infrastructure and power sectors, we are expecting even higher economic growth in coming years. We believe, Bangladesh economy will grow at above 8% rate within the next 3-4 years. Higher GDP growth amid low population growth will give boost to our income level.

- Inflation has come down to very comfortable range. The 12 month average inflation as of Nov'16 stood at 5.60% which was 6.20% in Nov'15. This is below the government's FY17 target (5.80%). The government has already cut down local oil prices once and it is expected that, the prices are going to be cut again soon. Our currency has been quite strong compared to those in the countries which are our major sources of imports. This, coupled with lower oil and commodity prices, is reducing our import cost. This is also helping us to keep inflation in check. We don't see any significant shift happening in global oil and commodity prices very soon. Our expectation regarding the currency exchange rate is also positive. So, we think, the inflation level will sustain at the present level.

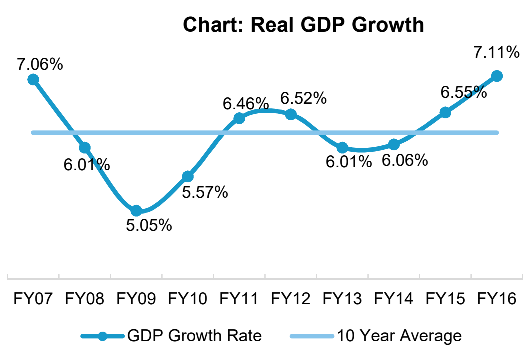
- We project single-digit growth in foreign trade of Bangladesh in 2017. We are hopeful that, export growth will slightly outpace import growth. Remittance suffered ~10% de-growth in 2016 due to the reduced income of the oil exporting Middle Eastern countries which are our major sources of remittance. However, oil prices have most likely seen their worst and recent decision by the OPEC to cut oil production will possibly sustain oil prices at the current level. Moreover, as per data from the Bureau of Manpower, Employment, and Training (BMET), the number of overseas employment of Bangladeshi workers has increased by ~35% YoY in 2016. We are expecting a lagged but positive effect from this. We are expecting marginally positive growth in remittance in 2017.

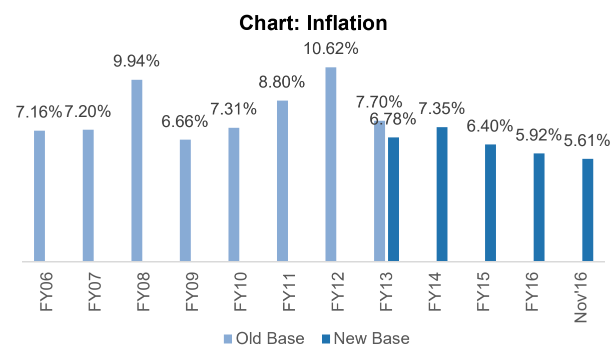
- Current account balance (CAB) dropped to the negative territory in the first quarter of FY17, after showing USD 3,706 mn surplus for FY16. However, we are expecting positive CAB for the whole of FY17 as we are expecting higher growth of export than imports with marginally positive growth in remittance.

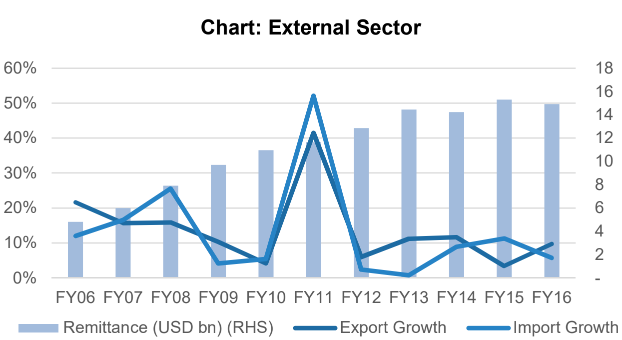
- The forex reserve of the country stood at USD 32.09 bn at the end of Dec'16. This amount is adequate to meet more than 9 months of our import bill. Government has projected reserve to reach USD 38.7 bn by the end of FY17. However, considering the situation in the external sector, we think this projection might be overly optimistic. We expect reserves to hover around the current level for a while and then pick up again when the external sector shows improvements. We predict BDT to largely remain stable against USD helped by this large reserve and lower import cost. There might be slight depreciation in the next year, but that is not necessarily a bad thing for our economy.

- The stable economic condition amidst a calm political climate and higher level of development projects is expected to attract higher amount of FDI and FPI inflow in the coming years

- Low inflation, low government borrowing, and huge amount of excess liquidity in the banking system has resulted in very low interest rates. Government borrowing is still low, but there are huge development projects in the pipeline which will most likely give a boost to public credit in the near future. The excess liquidity will provide shield against crowding out effect. Private credit growth has picked up. As of Oct'16, private credit growth stood at 15.2% YoY. Government targeted 16.5% growth in private credit for FY17, which is possible. We are expecting interest rates will remain low and credit growth will improve further, which is essential for achieving sustainable economic growth.







LankaBangla SECURITIES

Capital Market Outlook

- The year 2016 was quite an eventful one for the Bangladesh Stock Market. Against an overall positive expectation, the market performed badly during the first four months. The benchmark DSEX index fell continuously and reached the bottom on 2nd May, 2016. At that point, the Bangladesh Bank eased the capital market exposure related regulation for banks. As a result, the expected huge sell pressure from the banks diminished. That point marked an overall bounce back in the market. From the bottom at 4171.41 points on 2nd May, 2016, the market experience an almost uninterrupted up rally and closed the year at 5036.05 points posting 8.8% yearly return (20.7% from the bottom). Average daily turnover in DSE increased in 2016 and stood at BDT 4,944.28 mn, which was BDT 4,227.04 in 2015. Especially, in the last quarter, the market became really active with an average daily turnover of BDT 6,965.66 mn in the DSE. We are expecting that, this optimistic mood will continue in 2017.

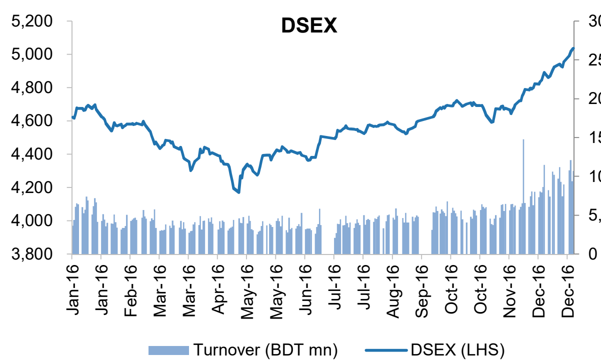
- Overall interest rates have been on a downtrend since the 4th Quarter of 2012 and by the end of 2016, rates have come down to historical low levels. The weighted average bank deposit rate as of Nov'16 was only 5.29%, which is below inflation level. Banks' lending rates have come down to single digit. Call money rates declined to only 3.56% in Nov'16. Yields on treasury bills and bonds have also come down to very low levels. Moreover, there is huge amount of excess liquidity in the banking system, which will keep the rates low. Such low rates in the money market is very conducive for stock market investment. We are expecting increased money flow into the stock market in 2017 which will help to keep the market vibrant.

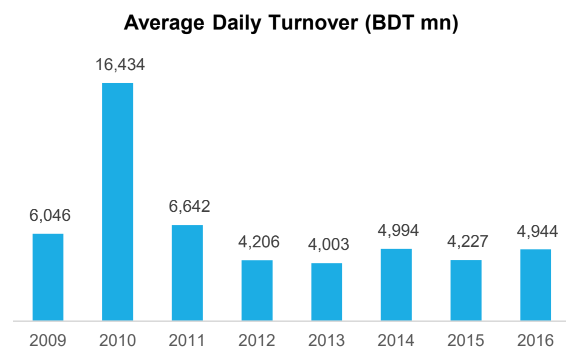
- Private credit growth has picked up which is a prerequisite for sustainable economic growth. Bangladesh government has huge infrastructure and power development projects planned, some of which are already running. These upcoming and ongoing projects will require huge investments from the public sector as well. They will also boost businesses in relevant sectors like: cement, steel, construction material, power generation etc. Local oil prices have already been reduced once and are going to be cut again soon. Many commodity prices have also decreased in the past couple of years. Due to lower rates, borrowing costs are also low. These will help businesses to increase their margins and might also be reflected in the prices which will increase consumption. Moreover, our income level has been rising steadily. This will also result in overall increase in consumption level. So, companies making and selling consumer goods will see increased business in the coming years.

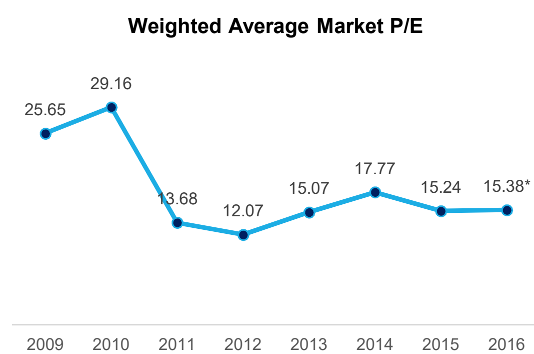
- Bangladesh stock market has been getting more and more attention from international investors who are looking for lucrative investment opportunities in the frontier markets. In 2016, total foreign turnover was USD 1,117.62 mn against USD 947.75 mn in 2015 recording 17.9% growth YoY. Our resilient economic growth, stable currency, and comparatively higher return will attract increased foreign portfolio investment (FPI) in the coming years. We are expecting that, foreign turnover will be approximately USD 2 bn in 2017.

- The regulators have taken many measures in recent years for the benefit of the stock market. Relaxing the capital market exposure rule for banks, extending deadline for provisioning against unrealized loss by capital market operators, updating the listing regulations, providing tax waiver benefit for affected investors, planning to establish a small cap exchange for qualified investors, etc. and many other regulatory updates have been done in order to reinforce the capital market. These regulatory supports will eventually encourage increased investment in the stock market.

- With trailing P/E multiple of 15.38x and P/B multiple of 2.00x, the Bangladesh stock market offers quite attractive valuations for investors. The cash dividend yield at the end of 2016 was 3.0%. Moreover, we are expecting corporate profitability in major sectors like Bank, NBFI, Pharma, Telco, Fuel & Power, Food & Allied, etc., which occupy ~80% of total market capitalization. So, even if the market provides above average returns in the next 2-3 years, the valuation level is most likely to remain at the current level. This low valuation should attract investments from local and foreign investors.







*2016 number is year-end calculated P/E

Industry Outlook

Bank

Bank is the integral part in the financial system of Bangladesh. With 56 scheduled and 4 non-scheduled banks in the country, majority of our financial activities are carried out through banks. Still our bank penetration rate is very low compared to the peers, which indicates huge potential for future growth. Bangladesh is one of the fastest growing economies in the world with last 10 years' average real GDP growth of 6.24%. This growth momentum is expected to continue for the next decade. This kind of sustained growth must be backed by continuous investments. During 2010-2015, loans and advances of the listed banks grew at 15.4% CAGR against average private sector credit growth of 14.8%. Due to political instability, a depressed investment scenario was present in the economy for the last few years. As a result, huge amount of excess liquidity accumulated in the banking system (BDT 1,209.79 bn as of Dec'15). Market interest rates have fallen to very low level and are expected to remain low in the coming years. The inflation level has also come down within a fairly comfortable range. This is a very investment friendly situation. After 3 subdued years, private credit growth picked up again in 2016. As of Nov'16, the total private credit of the country posted 15.2% growth YoY. We can safely expect private credit growth to hover around 15% level during the next decade. As the biggest source of financing, banks will capitalize on this growth potential. Profitability of the sector has been low for the past three years. ROE of listed banks in 2015 was 11.8% only, which was 23.4% just five years ago. The two major reasons behind this drastic fall are – the stock market crash of 2010-11 period and the rise of non-performing loans (NPL) since 2012. Although the stock market is poised to become vibrant again, the banks are yet to recover from the burden of NPLs and the subsequent provisioning expenses. Both the regulator and the banks are working diligently towards solving this problem. Several guidelines and monitoring facilities have been put into place. Bangladesh has also started towards a gradual implementation of the Basel 3 framework. The low interest rates are also expected to help in achieving higher growth and better asset quality. So, the more proficient banks are expected to get out of this slump very shortly. Once the NPL problem is sorted out, the bank sector will surely get back to its feet. 30 of the 56 banks are listed in the stock exchanges. Valuation wise, banks are currently quite undervalued with trailing P/E of 8.12x and P/B of 0.92x. We believe there is lucrative return potential in this sector in 2017. While looking at the sector for investment purposes, one must be cautious and invest only in the banks which are at a comparatively better position in terms of asset quality as well as core business activity.

NBFI

NBFIs play an important role in the financial system of the country by providing financing facility to both retail and commercial clients. Since NBFIs cannot accept demand deposits, they incur higher cost of funds than banks which makes it difficult for them to compete. They try to make up for this by providing some special products usually not available from banks. However, in recent years, the NBFI industry has been facing increased competition from banks as there was an overall slowdown of investment activities in the economy which drove banks out of their conventional way and move into NBFIs' field of operation. Cost of funds of NBFIs has come down quite much over the last few years along with the overall decrease in market interest rates. This should have a positive impact on the industry credit growth. However, NBFIs, like banks, are also burdened with non-performing loans (8.9% as of Dec'15) which are eating away the income. The provision coverage situation of the industry is also very poor (35.5% as of Dec'15). Although this poor numbers were worsened by critical condition of 3 specific NBFIs, but aside from a few good ones, the overall industry situation was already quite bad in this regard. Moreover, the NBFIs are exposed to the capital market through direct investments (3.3% of whole portfolio invested as of Dec'15) and margin lending (9% of loan portfolio as of Dec'15). The provisioning requirements for negative equity margin loans is another huge source of loss for the industry income. The industry's profitability decreased quite much in the last few years. Industry ROE and ROA was 9.8% and 1.6% respectively in 2015, down from 14.4% and 2.5% respectively in 2010. The silver lining here is, the capital market of the country has already started to move upwards and our outlook for the next few year is quite optimistic. This will help NBFIs income both through capital gain from direct investment and provision savings from margin lending. Also, as the private credit scenario is improving, there will be lesser competition from banks as they will focus more on their regular business. This and the lower rates will help NBFIs to achieve higher asset growth in the next couple years. Capital adequacy ratio of the NBFI industry stood at 18.7% as of Dec'15, way above the required minimum of 10%. So, it will be possible to pursue higher growth at least for a couple years without having to worry about capital requirements. There are 32 NBFIs operating in the country at present, of which 23 are listed. The financially sound NBFIs with good asset quality and the ones with strong presence in the capital market through direct investment and/or capital market subsidiaries pose profitable investment opportunities for the investors in the next couple years.

Telecommunication

The telecommunication sector of Bangladesh is already quite developed with total mobile subscriber base of 119.09 mn as of Sep'16. The number of subscription was 133.72 mn in Dec'15. The reason behind this apparent de-growth is the bio-metric registration of all mobile SIM users which was completed in May'16 and as a result many unused or secondary connections were discontinued. The mobile penetration rate as of Sep'16 stood at ~70%, which is lower than last year's number, but this statistic is more representative of the real underlying situation. Mobile penetrations at the end of 2015 in neighboring countries like India (78.8%), Malaysia (143.9%), Sri Lanka (112.8%), Thailand (125.8%), and Vietnam (130.6%) were higher than Bangladesh. The country has been under complete mobile network coverage for quite a few years now and the population is young. We are expecting increased usage of mobile connections in the coming years. The Average Revenue Per User (ARPU) of the industry had been on a declining trend since 2012 due to intense competition among the industry players and the increased number of rural subscribers who are usually lower value users. However, the trend reversed in 2016. Although industry numbers are not available yet, but the Q3'16 report published by the listed telecom company Grameenphone Limited shows significant improvements. The major reason behind this improvement was the deactivation of unregistered connections. The other factor behind this was the excellent growth in mobile data usage. Internet usage, especially mobile data usage, saw massive growth in 2016. Internet usage through mobile phone rose by 22.3% in 2016. As of Sep'16, the total number of internet connections stood at 66.86 mn, 94% of which was mobile internet. Despite a moderately high mobile penetration, the smart phone penetration level of our country is still very low. In 2015, Ericsson estimated smartphone penetration of about 20% at the end of 2015. This number is well below the world average. We are expecting high growth of smartphones in the coming years which will propel the growth of mobile data usage. The data segment is going to be the growth driver of the telecommunication sector in Bangladesh in the upcoming years. The whole country has already been taken under 3G coverage as 18 mn new 3G users are added in 2016. The telecom regulator also plans to give a go-ahead to 4G services in 2017.

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Connection with the second submarine cable is also going to become a reality within the first quarter of 2017. The second submarine cable will generate an additional 1320 Gbps bandwidth which will provide better quality connection for local users and create opportunity to export more bandwidth to neighboring countries.

The year 2016 was a very eventful one. The long-awaited merger of Robi and Airtel was completed in November to create the country's second biggest mobile operator, which is expected to change the industry dynamics and induce even competition in the market. On the other hand, Citycell, the country's oldest operator, was shut down several rounds of legal battles with the regulator. The biometric re-registration of SIMs was completed. Customers will enjoy the long overdue service of mobile number portability in 2017. Dispute about SIM replacement tax among National Board of Revenue and telecom operators remains unsolved yet. An unfavorable verdict might cost the operators significant amounts. But, our overall outlook for the industry is optimistic for the next few years.

Pharmaceuticals

Pharmaceutical industry is one of the fastest growing manufacturing sectors in Bangladesh with an annual average growth rate consistently in the high double digits. As of June 2016, the Bangladeshi pharma market size stands at BDT 156.39 bn (USD 1.99 bn). The industry growth is largely derived from the growing local demand. Increasing health consciousness among the people, more investment in healthcare infrastructures and positive demographic changes are the major facilitators for the increasing demand in this industry. In the fifteen years between 1999 and 2014, the local pharma market has annually grown by 14.0% on average. Despite experiencing significant growth in the recent past, there is certainly room to grow still. Despite this significant growth, Bangladesh pharmaceutical industry is still less penetrated as the healthcare expenditure consists only 3.7% of GDP (in 2013), whereas world average is 8.6%. Even the population size and enhancing social indicators are cueing that the future growth of the industry will continue at reasonably higher pace. The market looks set to continue growing at ~15% rate over the next five year horizon. Exports are yet to become significant in terms of revenue contribution. The exports are worth ~4.5% of the industry size currently, but the opportunities are aplenty in the foreign markets. After a comparatively slow 2014-15, pharma exports recovered in 2015-16, with a 13.0% YoY growth, bettering the govt set export target of USD 80 mn. For FY17, the govt projection for industry export is USD 95 mn, indicating a 15.7% annual growth expectation. Low labor and energy cost and encouraging regulatory environment are the industry’s core competitive strengths in the global perspective So far, pharma exports from Bangladesh have been focused mainly on the less regulated countries like Myanmar, Sri Lanka, Kenya, Vietnam, Philippines and it looks set to continue in 2017 as well. That said, significant progress has been made regarding export to more developed and regulated markets as well. Beximco pharma and Square Pharma have received US FDA approval for their manufacturing plants. Beximco has received US-FDA clearances for three drugs and started US exports. Export market will unwrap further for Bangladesh as top pharmaceutical companies are concentrating on developing US FDA approved plants and gaining clearances for drug export in regulated markets. In terms of profitability, upwards movement in oil prices and slight devaluation of BDT against USD could put some pressure on margins. Established pharma players enjoy higher than average pricing power, which is likely to offset increases in cost. Historically, margins have not slumped during adverse commodity or, currency situations and we do not expect margins taking any significant hit during 2017. Large pharma manufacturers have displayed strong growth in both revenue and profitability in 2016, yet the price return of most established pharma players did not materialize in accordance. As a result, valuations of several large cap companies have reached relatively lower levels compared to historical trend.

Consumer Goods

Currently, Bangladesh boasts a vibrant FMCG industry. According to AC Nielsen data, the annual size of Bangladeshi branded FMCG industry is estimated at BDT 268.7bn as of June 2016. Between 2010 and 2015, the branded FMCG market has grown at a 12.8% CAGR. In the same period, non-food FMCG items have grown slightly faster (with 13.5%CAGR) than FMCG products in the food segments (with 12.1% CAGR). The economy-wide private consumption expenditure is also growing at a similar rate. Between FY11 and FY16, the private consumption has grown at a12.0% CAGR. There is a growing middle and affluent class in Bangladesh. In 2015, middle and affluent class (MAC) comprises only 7% of the population, according to a study by Boston Consultancy Group (BCG). BCG predicts that MAC population will reach 17% by 2025, in turn creating a massive market for consumer goods. As of 2015, urban population stood 34.3% of total population. Given that urban population used to be only 23.6% in 2000, the urbanization trend is quite clear. In last 5 years, population growth rate of the country hovered around 1.2% whereas urban population growth rate was around 3.5%. The urban population growth rate is higher than that of India (2.4%), Myanmar (2.5%), China (2.8%), Vietnam (3.1%) and Pakistan (3.3%). This urban consumer class intends to spend more on FMCG products which will help create demand for FMCG products nationwide. With real GDP growth of 7.11% in FY16 and 13.6% CAGR in nominal GDP growth in the last ten years, the trend of wealth creation is quite visible. And with per capita income growing at 11.6% CAGR between FY13 and FY16, rising income patterns is also apparent. Growing MAC population, rising income levels, high growth in urbanization all point to the inherently growing market for the consumer goods. The combined FMCG industry is expected to grow 13%-15% annually over the next three years. Historically, political unrest has caused major disruptions in supply chains of consumer goods, thus hurting industry growth. With political outlook quite stable for 2017, no major disruption in business activities is expected which should help consumer goods manufacturers enjoy uninterrupted business growth. Profitability of FMCG manufacturers is often closely tied to commodity prices. Downward trajectory in commodity prices in recent years has helped boost margins for a lot of the FMCG manufacturers. In 2017, there is possibility of reversal in commodity price trends, which could be relevant for a few of the listed companies.

Looking at important consumer goods segments listed in the capital market, the general outlook is quite in line with FMCG outlook. For biscuit production, the industry growth outlook remains positive with double digit industry growth expected in 2017. Branded biscuit manufacturers will continue to gain market share from local, small-scale producers. One interesting trend in 2016 was emergence of small volume/size packs, particularly in tea-stalls across the country. Shelf space in majority of these stores used to be occupied with local products. In 2017, this should provide a good growth opportunity for established biscuit manufacturers to expand their market base. There have also been visible trends of more value added products being introduced, both local and foreign in origin. Due to the lucrative nature of the market, entry of foreign players remains a possibility. Sri Lankan manufacturer Ceylon Biscuits Limited (CBL) entered the local market in 2016.

Moving on to cigarettes, low segment will continue to drive volume growth for the industry in 2017. There is a visible shift in the consumption patterns as more and more consumers switch from beedis and move to low segment cigarettes. Tax

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increase on Beedis and chewable tobacco products in the latest budget would also be helpful in this regard. In 2015 , premium segments saw volume de-growth for premium products on the back of tax increase in FY16. As there was almost no additional tax (~1% increase) imposed on premium segment cigarettes in FY17 budget. The segment also performed better in terms of volume in the coming year.

Looking at ice-cream and frozen foods, 2017 is expected to see continuation of industry growth. These items used to be regarded as luxury with infrequent consumption. Also, load-shedding and lower levels of electricity penetration used to severely limit the products' reach within the country. With income levels rising and high urbanization creating additional demands for snacks and easy-to-cook foods, the consumption frequency of these products is fast increasing. Electricity production has been rapidly expanding as well, making distribution networks more penetrating. The ice cream industry is quite established in Bangladesh with the branded ice-cream market valued at ~USD 125 mn. The industry is growing fast with ~ 15% growth expected in 2017. Compared to ice-cream, the local market for frozen food is still in its early phases, with 8%-10% industry growth expected in 2017.

Cement

Cement industry is one of the fastest growing industries in Bangladesh, with nine years CAGR of 10.3%. The industry is operating with effective capacity of ~39 million MT, whereas the demand was ~27 million MT. Thus, the industry is operating with excess capacity of ~30%. The industry saw around 20% volume growth in 2016. As a result, the excess capacity in the industry has actually decreased from last year's ~40% levels. The pressure on cement prices has eased somewhat in this year with this volume boost. Cement manufacturers have also been benefited by falling clinker prices which have led to margin expansion.

In 2017, industry volume growth is expected to improve by dint of some mega projects which would further appease the price competition in the cement industry. Padma bridge will add an additional demand of around 0.75 million MT per year. So, from current industry demand of 20.0 million MT, we can see an approximate 3.8% addition of demand from Padma Bridge alone. Other big government's infrastructure projects like Dhaka City Elevated Expressway, Dhaka-Chittagong access Control Highway, Sky Rail around Dhaka City, Dhaka Metro Rail Transit, Dhaka-Narayanganj-Gazipur-Dhaka Elevated Expressway, and deep-sea port in Chittagong are in planning stage and will create additional demand in the industry. The Padma Bridge, Metro Rail and several other projects are already underway which would boost the industry growth for next five years. Overall, aided by the infrastructure development push, the cement industry is expected to grow at ~15% CAGR over the next five years.

Construction Materials

Paint industry has been growing at approximately 9% per annum for last 7 years. In 2015, total demand for paint was about 150,000 MT. However, per capita paint consumption is still lower (0.96kg/annum) compared to peers, Sri Lanka (3.5kg/annum) and India (2.6 kg /annum). Decorative paints are mostly used by individual homeowners for beautification. The growth of the industry is driven by this segment. Rapid growth in urbanization and rising disposable income will provide buoyant demand in the future for decorative paints. Fall in crude oil prices and cement prices have positively impacted profitability of paint companies as raw materials like pigments, binders, additives and chemicals are petroleum derivatives. Stellar improvement in gross margins has resulted in healthy operating profits.

Mild Steel (MS) Electrodes, which are used as construction materials for real estate sector have recorded an average growth of 10% during last five years (2010-15). Along with urbanization and political stability, electrodes' consumption is expected to show higher growth in coming years

Steels

With an estimated market size of 300 Billion BDT, the steel industry in Bangladesh is currently experiencing an upsurge in demand. This growth is driven mostly by government spending on infrastructure projects, which accounts for 40% of steel consumption in Bangladesh. Per Capita consumption of steel in Bangladesh is 26 kg which is significantly lower than world average of 217kg, so there is significant room for growth. Billet prices have fallen almost by one-third leading to an expansion in gross margin. Construction of mega-projects like metro-rail, Padma Bridge, elevated express highway is supposed to boost demand of steel even further. Producers are eyeing to grab this additional market share by bringing in further capacity.

Electricity Generation

Power generation capacity of the country experienced 6-year CAGR of 13.7% (FY10 – FY16); generation capacity of the country stood ~13,000 MW in Dec'16. Rate of electrification also improved significantly in last 3 years, reaching to ~74% in 2015 from ~60% in 2012. Despite such commendable growth in capacity expansion and increase in rate of electrification, per capita consumption of electricity in FY15 stood 248 kWh compared to 565 kWh in India, 408 kWh in Sri Lanka, 357 kWh in Pakistan, and 1,113 kWh in Vietnam. To incentivize the economic growth of the country, investment in power generation sector is required since all economic activities are directly or indirectly depended on energy. That is why, there has been huge push from the government to continue ramping up electricity generation. A draft of the Power System master Plan (PSMP) 2016 has been created which sets estimates that electricity demand could reach 52,000 MW by 2041 and to combat this, electricity generation target has been set at ~ 57,000MW. This huge target is planned to be achieved through increased use of coal and LNG in an effort to reduce dependency on gas. Looking at listed stocks engaged in electricity generation, 2016 saw several companies give significant price return as they capitalized on the government push to gear up electricity generation and earned new power project contracts. For the coming year, more of the same scenario is expected, where companies adding additional power generation capabilities could generate high returns.

Fuel Distribution

Fuel import in the country, except that of by power plants, is regulated by Bangladesh Petroleum Corporation (BPC). BPC mostly imports crude oil, refined oil (diesel, petrol, octane, kerosene), and furnace oil. Total import of petroleum product by BPC in 2015 was 4.85 mn ton, marking a 10.9% decrease over the previous year. In the first six months of 2016, total fuel import through BPC was 2.42 mn ton. With second half of the year requiring traditionally lower amounts of fuel, the total imports for 2016 is set to be lower than 2015. Improved electricity production has caused diesel-run irrigation pumps to operate with electricity, decreasing demand for diesel. On the other hand, furnace oil imports are also on a declining trend as power plants gain license to import their own fuel. Having said that, our expectation is that fuel imports for 2017 would remain stable at 2016 levels, with possibility of small increase. The govt. has cut the fuel price once in 2016 and another cut is planned for 2017. With cautious usage strategy of gas and new quick rental power projects (which don't have fuel import licenses) in the pipeline for 2017, there is possibility for increased demand of fuel oils, even as growing electricity output continues to cut down on diesel usage.

BPC sells fuel oil all over the country by 3 distribution companies namely Padma, Meghna, and Jamuna; they get distribution commission on volume of oil sold. Since the power generating companies started importing furnace oil of their own, the volume of oil supplied by the distribution companies declined, thus decreasing operating profit fuel distribution companies. But in 2016, the distribution margins of three fuel distributors went up by 57% for furnace oils and by 100% for other fuel types. So earnings uptick is expected in the coming year. The oil distribution companies earn a huge amount of interest income. They deposit their collections from customers to short term deposits in banks before they return such collections periodically to BPC. The deposit rates in the banks have been declining, although the we expect no large decrease of the rates in 2017 as the rates have already fallen significantly.

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Lubricant & LPG Distribution

Unlike fuel oil, lubricant market is dominated by private players and international brands. Current market size of lubricant industry in Bangladesh stands BDT ~250 billion. Annual domestic consumption now stands at ~480 Kilo Barrels, with the market growing at almost 3% per year, which is on par with India but behind China. Commercial and private vehicles, consuming 75% of the lubricant, have a 5-year CAGR of 6.7% and 5.8% respectively (based on registered numbers). As a result, lubricant business is expected to have stable growth in upcoming years.

The outlook is very bright for companies engaged in LPG distribution. The government has stopped providing new pipeline gas supply connections for domestic use and there has been a policy shift towards making LPG available at affordable costs for household consumption. As the demand of natural gas far exceeds its supply, and new gas connections for domestic use become scarce, people rely more on Liquefied Petroleum Gas (LPG) as alternative fuel. The demand of LPG gas in Bangladesh is around 150 thousand tons per annum. The demand of the LPG is mostly met the private sector that contributes to 85% of LPG import. The LPG supply industry is shaping up to scale up dramatically over the next three to five year horizon. 2017 is poised to be a good year for companies with significant presence in the business. New players are also entering the scene, both of local and foreign origins, as the industry goes through a phase of expansion of distribution network and establishing large scale LNG processing plants.

Textile

Bangladesh RMG sector is the largest export oriented sector of Bangladesh which contributes around 82.0% share in country's total exports and accounts for around 12.7% of the GDP as of FY16. Bangladesh is the second largest source of RMG products in the world after China. As China is losing market share in USA, market demand would be shifted to Bangladesh. Bangladeshi garment exporters get duty-waiver facility from the EU. In FY16, RMG export to EU grew by 11.6% YOY.

Bangladesh RMG industry enjoys low cost labor compared to other competing countries. Also, abundant labor supply and adequate capacity will improve supply side dynamics of Bangladesh RMG industry. According to WB latest wage statistics, labor cost in Bangladesh is only USD 69 per month, which is the lowest payment among the competing countries. Apparel manufacturers enjoy subsidized energy, while RMG exporters enjoy cash subsidy of around 4% if they use local yarn and fabric.

Following Tazreen fire and Rana Plaza collapse, the Accord and Alliance, two platform consisting of prominent North American retailers for factory inspection, have upgraded fire, electrical and structural safety in the garments sector. In Jan-Sep'16 period, total Bangladesh RMG export to US market amounted to USD 4.2 bn, up by YoY 0.6%. Slight currency depreciation of BDT is expected in 2017 which will help exporters. Currency depreciation in India, Vietnam, and China may put pressure on Bangladeshi manufacturers as BDT remain stable. In the denim segment, significant growth in demand is projected for 2017. However, spinning companies might find it difficult if cotton prices don't change to their favour as cotton is the key raw material.

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